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The significance of exchange risk for foreign trade of furniture industry in Poland

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Abstract: *The significance of exchange risk for foreign trade of furniture industry in Poland.* Risk is an integral part of all economic activities. Specificity of the industry in which companies function determines the kinds of risk which is of great importance especially from the point of view of their profitability and competitiveness, both in the home and export markets. Furniture industry in Poland is characterized by a great activity of export considerably exceeding an average of industrial processing in total. On account of this foreign exchange risk is especially significant which may influence the level of competitiveness of Polish furniture on the foreign market. The article presents change trends in export and import of Polish furniture industry against the fluctuations of exchange rates in the years 2007-2012. The paper also illustrates key trading partners in international exchange of furniture industry products.

Keywords: furniture industry, risk, foreign exchange risk, trade exchange

INTRODUCTION

Risk is an integral part of all economic activities. One of the pioneers discussing the subject was F. Knight. He claimed that risk is an uncertainty that can be measured and it cannot be mistaken for unmeasurable uncertainty. He also stated that the outcome of activities may be defined with the use of three types of probabilities: mathematical, statistical and estimated which to his mind was the most characteristic of economic activity [Knight 1985].

In the literature on the subject there are a number of definitions of the term "risk" which can be grouped as either defensive or offensive. The first category presupposes that the phenomenon entails only losses and for that reason it should be avoided. For example Crichton [1999] said that risk was the probability of a loss, and this depends on three elements, hazard, vulnerability and exposure. In Grangers [1999] opinion risk means the expected number of lives lost, persons injured, damage to property and disruption of economic activity due to a particular natural phenomenon, and consequently the product of specific risk and elements at risk. According to Stenchion [1997] risk might be defined simply as the probability of the occurrence of an undesired event and be better described as the probability of a hazard contributing to a potential disaster.

As regards the offensive approach, however, it treats risk also as a chance to render extraordinary gains. Risk then has two faces – negative and positive. The first is the source of aversion, the latter, though, propels into creative action, it is an incentive for increased physical and intellectual effort [Grzybowski 1984]. Risk is a combination of the chance of a particular event, with the impact that the event would cause if it occurred. Risk therefore has two components – the chance (or probability) of an event occurring and the impact (or consequence) associated with that event. The consequence of an event may be either desirable or undesirable [Sayers 2002].

Risk applies to companies functioning in the furniture industry as well. There are certain characteristics of furniture market, which determines different types of risk peculiar to companies of this sector. Some of the distinguishing features are: no recognition of Polish furniture brands on foreign markets, manufacture dependence on wood material, a great percentage of micro companies in the subjective structure as well as production concentration in big furniture plants [Grzegorzewska 2014]. Moreover, a characteristic of furniture industry in Poland is a great export activity considerably exceeding an average of industry in total [Grzegorzewska 2014]. It is estimated that every year about 90% of sold production of domestic furniture is destined abroad. Thus, the euro exchange rate is of key significance for profitability and competitiveness of furniture industry in the world market, it is the currency in which most of the export is settled [Grzegorzewska 2013a].

Foreign exchange risk is one of the categories of market risk which deals with changes probability of the values of market-based instruments. Generally the negative dimension of foreign exchange risk is laid emphasis on, the so-called pure exchange risk which entails loss making for the entrepreneur.

As regards the speculative exchange risk it entails decreasing the worth of income or increasing costs as well as the possibility of increasing the income or decreasing costs in connection with the change of exchange rates [Rymarczyk 2002].

Foreign exchange risk has special significance for export industries which also comprise the furniture market.

OBJECTIVE AND RESEARCH METHODOLOGY

The article aims to define the significance of foreign exchange risk for companies functioning in the furniture and wood industries. The analyzed years are 2007-2012. The key source of research material were “Yearbooks of Foreign Trade Statistics” published annually by the Central Statistical Office (GUS) and reports on the condition of foreign trade compiled by the Ministry of Economy.

In the article horizontal (dynamic of changes) and vertical analysis is used which describes the shares of each country in the total value of Polish import and export. On this basis there is presented the rank position of the customers and suppliers of furniture industry products. In addition, a comparative analysis of the total value of export and import is included with the average values of USD and EUR exchange rate.

RESEARCH FINDINGS

From the research conducted by GUS it follows that in the years 2007-2012 the export value of furniture industry products increased by over 1/3 from 21.4 billion PLN to 28.3 billion PLN (table 1).

Table 1. The value of Polish export of furniture to particular countries [thousand PLN].

Country	2007	2008	2009	2010	2011	2012
Germany	7493550.0	7004104.2	8397689.9	8926274.9	10580929.3	11042530.2
France	1908349.9	1920425.1	1949073.0	1907173.1	2250510.5	2224362.6
United Kingdom	1295888.0	1165879.2	1110500.8	1336285.0	1667115.9	1763759.9
Czech Republic	1177076.5	1321531.0	1505957.4	1398499.0	1510250.1	1610146.2
Netherlands	810346.4	844612.9	986053.7	996352.1	1099722.1	1216651.3
Sweden	1124134.9	1125842.6	916045.1	972209.4	1091037.8	1085689.9
Belgium	1093738.1	927317.8	825953.6	833410.2	951343.8	934743.1
United States	585417.1	700800.9	666965.0	856170.7	1006961.1	931204.6
Russia	386715.3	397157.7	282495.6	345483.4	528640.4	722017.1
Total	21360770.3	20738830.3	21847368.7	23334948.9	27241887.9	28333431.1

Source: own study on the basis of „Yearbook of Foreign Trade Statistics of Poland 2008”, p. 300, „Yearbook of Foreign Trade Statistics of Poland 2009”, p. 344, „Yearbook of Foreign Trade Statistics of Poland 2011” p. 380-381, „Yearbook of Foreign Trade Statistics of Poland 2012” p. 378, „Yearbook of Foreign Trade Statistics of Poland 2013” p. 367.

The greatest dynamic of the value of furniture destined abroad (116%) was noted in 2011. However, there was a decreasing tendency in 2008 which may stem from the negative consequences of the global economic crisis which with a certain delay affected Polish furniture industry. It needs to be noted that the decrease in the export and import values in total (20.4% and 28.9% respectively) was observed a year later – in 2009 [Grzegorzewska 2013b]. These tendencies were particularly unfavorable for Polish economy.

In the analyzed period the great majority of Polish furniture (about 85-87%) was sent to the EU countries. As regards the countries of East-Central Europe, they received between 2.2% and 3.5% of the furniture industry products in total [Statistical Yearbook of Industry - Poland 2013].

Important information on the condition of Polish furniture industry is also derived from the analyses including the level of export to particular countries. As it follows from the GUS research in 2012 the most of Polish furniture was sent to Germany (table 1). This tendency in export of the sector has continued for a long time. In the years 2007-2012 from 34% to 40% of export value of Polish furniture entered German market. France, Great Britain and Czech Republic also classified high in the ranking of customers of Polish furniture. In 2012 the value of furniture industry products that were sent to the above countries was at the level of, respectively: 2.2 billion PLN, 1.8 billion PLN and 1.6 billion PLN.

In the analyzed period the greatest dynamic of the level of export in the value-based context was noted in Russia (186.7%). Favorable tendencies in the field were also observed as regards the following: United States (159.1%), Netherlands (150.1%), Germany (147.0%), Czech Republic (136.8%) or Great Britain (136.1%).

In the years 2007-2008 the greatest supplier of furniture for the Polish market was Germany. In the following years the leader position was occupied by China. The import of furniture from this country in the value context in total was about 22%-25%. The greatest increase in the import dynamic of furniture industry products was noted as regards Austria (288.33%) and Romania (286.0%). In the ranking of suppliers Slovakia (157.9%) and Sweden (147.7%) gained significance as well. In the years 2007-2012 a decrease in the value of export was observed as regards furniture coming from France, Czech Republic and Germany. It was at the level of 19.7%, 7.9% and 6.4% respectively.

Table 2. The value of Polish furniture import from chosen countries [thousand PLN].

Country	2007	2008	2009	2010	2011	2012
China	716051.6	845544.5	852785.4	896173.1	953172.6	1009964.6
Germany	934094.4	867776.7	796184.7	775463.6	932170.8	872362.2
Italy	289523.1	341006.0	284382.3	243843.6	291768.6	378398.8
Austria	71735.3	82072.5	204778.1	181093.5	194442.1	206779.1
Sweden	131078.5	135590.7	123020.5	129935.2	200719.7	195058.4
Czech Republic	208502.7	257601.8	199190.1	170530.9	152088.6	192077.3
France	226816.3	270178.6	255018.2	185203.9	212824.8	182163.4
Slovakia	113159.6	158725.7	183787.2	142951.5	167441.9	178696.6
Lithuania	113972.4	137579.5	161372.8	118881.2	147288.1	146453.3
Romania	33046.9	43478.5	47035.1	44283.8	49551.0	94524.5
Total	3744018.9	4132939.4	4004126.5	3733741.9	4277475.1	4322834.2

Source: own study on the basis of „Yearbook of Foreign Trade Statistics of Poland 2008", p. 299, „„Yearbook of Foreign Trade Statistics of Poland 2009", p. 344, „Yearbook of Foreign Trade Statistics of Poland 2011" p. 380, „Yearbook of Foreign Trade Statistics of Poland 2012" p. 377, „Yearbook of Foreign Trade Statistics of Poland 2013" p. 367.

Ones of the most important factors influencing the profitability of trade exchange with foreign countries are exchange rates in which most of the export and import are settled. In chart 1 an average monthly level of USD and EUR exchange rate in the years 2007-2012 is shown.

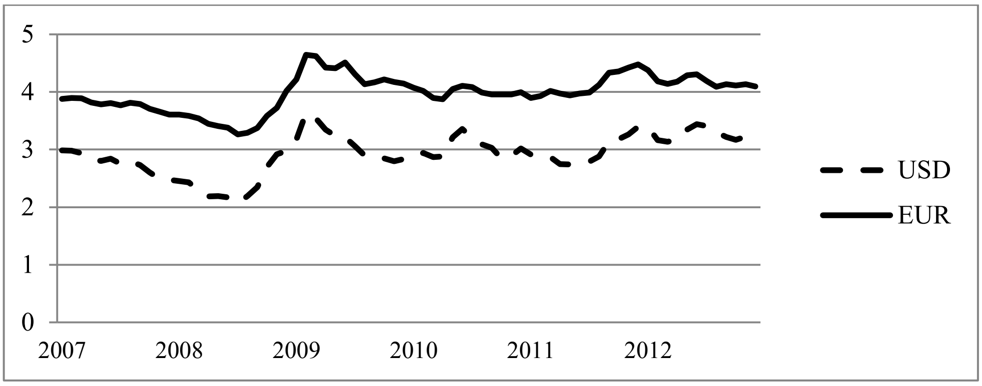

Chart 1. Average monthly level of USD and EUR exchange rate in the years 2007-2012 [PLN].
Source: www.nbp.pl

It follows from the analysis that the highest level of the exchange rate of these currencies was noted in February, 2009. At that time 1 EUR cost on average 4.64 PLN and for 1 USD one had to pay 3.63 PLN. Strengthening of foreign currencies against zloty is a favorable phenomenon from the point of view of competitiveness of Polish export. It applies to furniture industry as well which every year exports most of its domestic sold production. As regards the position of importers, however, the same situation is unfavorable. In the years 2010-2011 there was a relative stability of the exchange rates of these currencies. In the year 2012 there was another strengthening of EUR and USD against the zloty. It hindered the negative influence of weak market environment on the markets of the most important customers of Polish products [Poland 2013. Foreign Trade Outlook, p. 123]. The situation applied to Polish furniture industry as well.

CONCLUSION

1. There are certain characteristics of furniture industry in Poland that determine the kinds of risk which is particularly important from the point of view of companies' profitability. One of the factors influencing profitability of Polish import and export of furniture is the level of exchange rates.
2. Foreign exchange risk is particularly important for Polish furniture plants, however, one has to look at the phenomenon from two angles. Fluctuations of exchange rates may contribute to either making a loss or rendering extraordinary gains.
3. The undisputed leader in the ranking of customers of Polish furniture is Germany. The value of export of furniture industry products sent to that country amounted even to 40 % of export in total. In 2012 other places of the ranking were occupied by France, Great Britain and Czech Republic.
4. Since 2009 the greatest supplier of furniture into the Polish market has been China. The second place is occupied by Germany. Moreover, attention needs to be paid to the considerable dynamic of the value of furniture import from Austria, Romania, Slovakia and Sweden.

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Streszczenie: *The significance of exchange risk for foreign trade of furniture industry in Poland.* Ryzyko towarzyszy każdej działalności gospodarczej. Specyfika branż, w których funkcjonują przedsiębiorstwa determinuje rodzaje ryzyka szczególnie ważne z punktu widzenia ich rentowności i konkurencyjności, zarówno na rynku krajowym, jak i światowym. Rynek meblarski w Polsce cechuje się dużą aktywnością eksportową, znacznie przewyższającą średnią przetwórstwa przemysłowego ogółem. Z tego względu ważne jest ryzyko kursowe, które może wpływać na poziom konkurencyjności polskich mebli na rynku zagranicznym. W artykule zaprezentowano tendencje zmian w eksporcie i imporcie branży meblarskiej w Polsce na tle wahań kursów walutowych w latach 2007-2012. Przedstawiono również głównych partnerów handlowych w wymianie międzynarodowej wyrobami przemysłu meblarskiego.

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